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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL/AG UPDATE - NOVEMBER  
26 - 30

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12. (U) Inflation up again: November prices were 4.1 percent above their level of a year ago, according to preliminary estimates. As recently as September, the inflation rate was below 3 percent. With the rate continuing to be above the EU average, Spanish goods are gradually becoming less competitive.

13. (SBU) Solbes agrees to run with Zapatero: President Zapatero has convinced Second Vice President and Finance Minister Pedro Solbes to run with him in Madrid as the number two on the Socialist list. Should the Socialists win in March 2008, Solbes has also agreed to stay in the government as Finance Minister. (Comment: Running in Madrid is traditionally high profile. Solbes, agreeing to run and to stay is widely interpreted as Zapatero's shoring up his right wing. It is also an example of the PSOE's strategy of getting prominent candidates to run in areas where the Socialists are weak; Madrid is a bastion of the opposition conservative PP party. The question is whether Solbes, running in Madrid will boost the Socialists, numbers in the capital. It is hard to say, because Solbes, reputation is not as stellar as it was four years ago, as he has been forced to accept some spending he openly disagreed with such as the 2500-euro "baby check" for every newborn. Still, Solbes remains a prestigious figure, so it is something of a coup for Zapatero to have convinced the 65-year-old to run and to stay in government. Given the likelihood of a tight race, Solbes, presence is likely to be an asset for the Socialists.) (El Pais, 11/27/07)

14. (U) Socialist climate change policy ideas in flux: El Pais reported on November 27 that the draft party electoral program called for charging one cent for every liter of gasoline to fight climate change, the creation of a cabinet-level Vice Presidency of Sustainability, an emphasis on renewables, and the gradual closing of nuclear electricity plants, starting with the Garona facility in 2009. PSOE Secretary Jose Blanco shot down the tax idea that same day

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and noted that the question of creating a Vice Presidency for Sustainability was an issue for President Zapatero. (Comment: The most notable element of the socialist plan is the rejection of nuclear energy. The rejection is justified by positing that nuclear waste is inconsistent with sustainability, though reducing nuclear generation will increase Spain's dependency on power generation methods that emit greenhouse gases. The document calls for increased renewable electricity generation, but despite the rapid increase of wind power over the last five years, total electricity consumption has increased by a slightly larger amount. El Pais ran a photo of former President Bill Clinton and President Zapatero that described Clinton as Moncloa,s "new advisor on climate change." It is not likely that Clinton directly influenced the PSOE climate change electoral program, although Clinton and Zapatero have had several meetings and Spain is a donor to the Clinton Global Initiative. It is also interesting that senior Socialists seem to have determined that promising new taxes is clearly not the way to go as in the runoff to the March 9 elections.) (El Pais 11/27/07 and 11/28/07)

15. (SBU) Opposition conservative PP party proposes labor market changes: The proposals are not fully developed, but two elements have been announced. First, measures to promote working beyond 65 on a voluntary basis. Second, longer maternity or paternity leave. (Comment: What Spain needs is additional labor market flexibility in terms of hiring and firing. Spain has more of this flexibility than, for instance, France, because of the widespread use of short-term contracts, but most economists think Spain could use more of it. Interestingly, the PP has not made proposals on this highly controversial topic, which is consistent with the party,s moderate or even centrist orientation on economic issues, coupled with a much more conservative hard-line stance on political, social, and constitutional questions.) (Expansion, 11/27/07)

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16. (U) Livestock producers receive subsidies; biotech could address problems: While the EU agricultural biotechnology approvals progress creeps along, holding down crop yields, Spanish livestock producers have asked for and received 300 million euros in GOS subsidies to help offset the high cost of feed ingredients. EU Farm Commissioner Mariann Fischer Boel had predicted that this would happen, saying on various occasions that any potential biotechnology moratoriums (including the current glacial approvals process) could seriously jeopardize the EU livestock industry, possibly even forcing meat production to move outside Europe. She correctly noted that if the EU cannot quicken its approvals process, member state livestock producers will be further disadvantaged, because grain exporters like the US, Argentina, and Brazil will export biotechnology-based grains to their competitors.

17. (SBU) USEU Brussels trade officer visits Madrid: USTR,s Dan Mullaney visited Madrid on 11/26/07 and met with Embassy and Ministry of Industry, Tourism and Trade officials. Mullaney emphasized USG Special 301 concerns and exchanged views on Geographical Indications (GIs) with the Ministry's Subdirector General for EU Trade Policy, Inigo Febrel. Febrel is a strong GI proponent; Mullaney said that the USG continues to be unconvinced that the TRIPS agreement and the trademark system do not provide sufficient protection for GIs. Mullaney expressed to Subdirector General Teresa Zapatero our concerns over French, Italian, and Austrian biotechnology developments, coupled with Commissioner Dimas, calls to reject two biotech events (genetic modifications of organisms) that have been cleared by the European Food Safety Agency (EFSA). Zapatero said that as far as the Ministry of Industry was concerned, as long as events are approved, Member States should vote in favor of them. However, she

indicated that it was often a struggle to sustain this view within the GOS because of opposition from the Ministry of Environment.

18. (SBU) Mullaney spent the most time on Special 301 with the Ministry's Subdirector General for the Information Society, Salvador Soriano Maldonado. Soriano said he understood that the USG was looking for some sign of tangible progress on dealing with illegal internet downloads. He said he was "optimistic" that the GOS could convince the Internet Service Providers (ISPs) and content providers on a voluntary notice system, leaving takedown for later. Mullaney also spoke with Subdirector General for Industrial Products Rafael Marques Osorio about our concerns over the EU,s classification of certain products so that they are not covered by the Information Technology Agreement (ITA) zero-import-tariff requirement. Marques said that the EU,s understanding was that the ITA was not meant to include "consumer electronics," although he conceded that there was nothing in the agreement itself that said so. He was very open in saying that Spain,s defensive interest was that Sony produced TVs in Spain, and that there were 4,000 jobs in this sector. Therefore, he implied, classifying flat screen computer monitors that can also be configured for television as TVs (and thus making them subject to import tariffs) was understandable. Marques also claimed that the Commission had the lead on these matters, as well as the Customs authorities.

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